

IEX Group, Inc.
4 World Trade Center, 44th Fl
New York, New York 10007
www.iextrading.com

Claudia Crowley
Chief Regulatory Officer



May 22, 2015

Via email to: rule-comments@sec.gov

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20548-1090

Re: Exemption for Certain Exchange Members; File No. S7-05-15

Dear Mr. Fields:

IEX Services LLC (“IEX”) appreciates the opportunity to comment on the Commission’s proposal (“Proposal”) to amend Rule 15b9-1 (“Rule”) under the Securities Exchange Act of 1934.¹ IEX supports the Proposal, which would modernize the Rule to address significant changes to the markets since it was last amended in 1983 and strengthen regulatory oversight of the off-exchange market, but would encourage the Commission to ensure that the Proposal is implemented in a way that seeks to limit costs, particularly for smaller firms that would be impacted.

IEX presently operates an alternative trading system (“ATS”) for U.S. equities. IEX accepts “hidden” orders of the type traditionally accepted by ATSs and in addition recently has begun accepting non-protected “lit” quotes. IEX offers a simplified and transparent model designed to eliminate many of the conflicts that are currently present in the financial markets. Also, with investor-centric order types and advanced technology and architecture, IEX has sought to neutralize on its trading platform certain negative effects of structural inefficiencies in the national market system. IEX intends to file for registration as a national securities exchange in the near term.

As described in the Proposing Release, the Proposal would in essence amend the Rule to limit the existing exemption from FINRA membership to broker-dealers operating on the floor of an

¹ Securities Exchange Act Release 74581 (March 25, 2015) (“Proposing Release”).

exchange that carry no customer accounts and limit their off-exchange transactions to those effected for hedging the risks of their floor-based activity, or that result from orders routed by the exchange to prevent trade-throughs consistent with Rule 611 of Regulation NMS.²

IEX believes that the Proposal would advance two important purposes. First, it would update the Rule to better align with its original intent and to better reflect current market technology and practices. As described in the Proposing Release, the scope of the exemption provided in the Rule was intended to exempt from FINRA membership exchange-based specialists and floor brokers that conducted very limited activities ancillary to their floor-based business.³ For that reason, we believe that the amendments will help to align the application of the Rule with its intended objectives, and thereby enable more comprehensive and consistent regulatory oversight of off-exchange market activity. More generally, IEX supports efforts by the Commission to conduct a systematic review of existing rules to ensure that they continue to meet the intended objectives as market conditions and practices evolve.

Second, the Proposal will help to support the important principle that firms engaged in activity with the same or similar impact on the trading markets should be subject to comparable regulatory oversight. The Commission estimates that firms exempt from FINRA membership accounted for a volume-weighted average of approximately 48% of orders sent to ATs in 2014.⁴ Because of this significant market impact, it is important that FINRA be in a position to conduct comprehensive surveillance and to apply its rules in a consistent way to firms similarly situated. As a firm that expects to commence operations as a national securities exchange later this year, we appreciate that exchanges are not well-positioned to oversee all of the off-exchange activities of their members.⁵ In the current regulatory scheme, FINRA is the only entity in a position to do so, subject, of course, to appropriate oversight by the Commission. Consistent application of FINRA's trading practices, business conduct, financial condition and operations and supervision rules to firms engaged in comparable activity should help to ensure that firms engaged in the securities business adhere to standards of "just and equitable principles of trade" and to reduce risk to the fair and orderly operations of the market.⁶

² See generally Proposing Release, at 35-54.

³ See Proposing Release at 4-12.

⁴ Proposing Release at 26.

⁵ See Proposing Release at 25.

⁶ See, Proposing Release at 29-30.

May 22, 2015

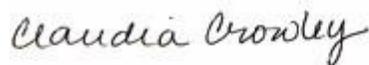
Page 3

IEX understands that the FINRA membership application process can take a significant period of time to complete, and we believe that the Commission should ensure that sufficient time is allowed for the firms that would newly become subject to the membership requirement so that the transition does not impose an undue burden or disruption for such firms. Preliminarily, we expect that one year after publication of the rule changes in the Federal Register, as proposed by the Commission, should provide sufficient time, but we encourage the Commission to carefully consider any comments from the impacted firms in this regard. We would also encourage the Commission and FINRA to ensure that completing the membership process for firms is conducted in a systematic and coordinated way, in particular to ensure that larger or more complicated firms are given ample time to complete the process.

Further, in considering relative burdens on smaller proprietary trading firms that may be disproportionately impacted in terms of additional costs, we recommend that the Commission seek assurance from FINRA as to the steps it will take to limit costs and burdens, whether deriving from the new membership application process, examination protocols, or other regulatory costs. In this regard, we note that in connection with the Commission's proposed amendments to the Rule, FINRA has requested comment on a proposed exemption to its trading activity fee ("TAF") to exclude from the TAF, transactions by a proprietary trading firm on exchanges of which the firm is a member. If adopted, the exemption would to some degree address cost concerns for firms that would be required to become FINRA members under the proposed amendments to the Rule.

Please feel free to contact the undersigned with any questions concerning our comments.

Sincerely,

Handwritten signature of Claudia Crowley in cursive script.

cc: Stephen Luparello, Director
Division of Trading and Markets